

Insight Catastrophe Group, LLC and Subsidiaries

**Consolidated Financial Statements
and Supplementary Information**

Years Ended December 31, 2016 and 2015

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Independent Auditors' Report

To the Members and the Board of Directors
Insight Catastrophe Group, LLC and Subsidiaries
Jersey City, New Jersey

We have audited the accompanying consolidated financial statements of Insight Catastrophe Group, LLC and Subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of operations, changes in members' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016, and the results of their operations and their cash flows for the year then ended in accordance with U.S. GAAP.

Prior Period Financial Statements

The consolidated financial statements of the Company as of and for the year ended December 31, 2015, were audited by other auditors whose report dated May 31, 2016, expressed an unmodified opinion on those statements.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The following is presented on pages 17 through 23 for the purpose of additional analysis and is not a required part of the basic consolidated financial statements and is collectively referred to as the "Supplemental Schedules":

- Consolidating Balance Sheets - December 31, 2016 and 2015
- Consolidating Statements of Operations - Years ended December 31, 2016 and 2015
- Consolidating Statement of Changes in Members' Equity - Years ended December 31, 2016 and 2015
- Supplemental Schedule of GAAP and Section 704(b) Book Basis Members' Equity Accounts - December 31, 2016 and 2015

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

The Supplemental Schedules as of and for the year ended December 31, 2015 were subjected to the auditing procedures applied in the 2015 audit of the basic consolidated financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2015 consolidated financial statements as a whole.

Dixon Hughes Goodman LLP

Charlotte, North Carolina
June 14, 2017

Insight Catastrophe Group, LLC and Subsidiaries
Consolidated Balance Sheets
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,229,439	\$ 1,820,103
Accounts receivable	4,803,270	3,762,912
Current portion of installment note receivable	14,850	65,400
Other receivables	28,992	12,868
Other current assets	322,720	177,831
Cash held for others	4,301,041	4,021,015
Total current assets	<u>14,700,312</u>	<u>9,860,129</u>
Software development costs, net	784,220	148,001
Property and equipment, net	1,213,915	1,189,148
Other assets:		
Installment note receivable, net of current portion	-	14,850
Notes receivable - related parties	805,183	712,304
Other noncurrent assets	246,945	247,304
Total other assets	<u>1,052,128</u>	<u>974,458</u>
Total assets	<u><u>\$ 17,750,575</u></u>	<u><u>\$ 12,171,736</u></u>
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities:		
Notes payable - related parties, current portion	\$ -	\$ 964,815
Obligation under capital lease, current portion	23,954	198,927
Deferred gain on sale of subsidiary, current portion	-	25,458
Accounts payable	1,257,287	1,015,711
Commissions and fees payable	2,950,862	1,994,841
Other accrued expenses	1,868,443	1,086,946
Accrued interest expense	-	12,730
Accrued incentive compensation	993,553	79,395
Customer deposits	4,375	4,375
Accounts held for others	4,301,041	4,021,015
Deferred revenue	1,883	1,883
Total current liabilities	<u>11,401,398</u>	<u>9,406,096</u>
Notes payable - related parties, noncurrent portion	-	562,809
Obligation under capital lease, noncurrent portion	-	24,210
Total liabilities	<u>11,401,398</u>	<u>9,993,115</u>
Members' equity:		
Members' equity	5,538,128	1,442,878
Noncontrolling interests	811,049	735,743
Total members' equity	<u>6,349,177</u>	<u>2,178,621</u>
Total liabilities and members' equity	<u><u>\$ 17,750,575</u></u>	<u><u>\$ 12,171,736</u></u>

See accompanying notes to consolidated financial statements.

Insight Catastrophe Group, LLC and Subsidiaries
Consolidated Statements of Operations
Years Ended December 31, 2016 and 2015

	2016	2015
Operating revenues	\$ 60,369,010	\$ 43,910,471
Operating expenses:		
Commissions	23,081,276	17,642,839
Personnel	17,077,071	13,338,812
Other	3,471,485	2,785,662
Professional fees	2,114,449	1,766,779
Policy processing	209,430	1,161,889
Program printing	825,000	615,692
Software licensing	524,273	482,590
Occupancy	435,519	505,935
Software development	741,069	245,396
Depreciation and amortization	371,927	302,591
Total operating expenses	48,851,499	38,848,185
Operating income before stock based compensation	11,517,511	5,062,286
Stock based compensation	107,643	1,055,008
Operating income	11,409,868	4,007,278
Nonoperating income (expenses):		
Interest income	15,974	18,355
Interest expense	(17,479)	(233,636)
Gain on sale of subsidiary	26,462	65,400
Guaranteed payment expense	(200,001)	(400,000)
Miscellaneous expenses, net	-	(222,033)
Net nonoperating expenses	(175,044)	(771,914)
Net income	11,234,824	3,235,364
Less net income attributable to noncontrolling interest	1,941,933	735,743
Net income attributable to controlling interest	\$ 9,292,891	\$ 2,499,621

See accompanying notes to consolidated financial statements.

Insight Catastrophe Group, LLC and Subsidiaries
Consolidated Statements of Changes in Members' Equity
Years Ended December 31, 2016 and 2015

	Controlling Interest	Noncontrolling Interest	Total
Balance, December 31, 2014	\$ (2,070,049)	\$ -	\$ (2,070,049)
Member distributions	(41,702)	-	(41,702)
Stock based compensation	1,055,008	-	1,055,008
Net income	<u>2,499,621</u>	<u>735,743</u>	<u>3,235,364</u>
Balance, December 31, 2015	1,442,878	735,743	2,178,621
Member distributions	(5,305,284)	(1,866,627)	(7,171,911)
Stock based compensation	107,643	-	107,643
Net income	<u>9,292,891</u>	<u>1,941,933</u>	<u>11,234,824</u>
Balance, December 31, 2016	<u>\$ 5,538,128</u>	<u>\$ 811,049</u>	<u>\$ 6,349,177</u>

Insight Catastrophe Group, LLC and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Net income	\$ 11,234,824	\$ 3,235,364
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	444,636	302,591
Stock based compensation	107,643	1,055,008
Incentive compensation expense	993,544	79,395
Gain on sale of subsidiary	(25,458)	(65,400)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(1,040,358)	(1,021,380)
Other receivables	(29,167)	7,555
Other current assets	(144,521)	212,715
Cash held for others	(280,026)	(1,541,799)
Other noncurrent assets	-	81,342
Increase (decrease) in:		
Accounts payable	241,576	95,097
Accrued interest expense	(12,730)	(8,040)
Other accrued expenses	781,497	(505,362)
Commissions and fees payable	956,021	231,046
Accrued incentive compensation	(79,386)	(156,787)
Accounts held for others	280,026	1,541,799
Deferred revenue	-	1,042
Net cash provided by operating activities	<u>13,428,121</u>	<u>3,544,186</u>
Cash flows from investing activities:		
Purchase of property and equipment	(396,694)	(403,035)
Additions to software development costs	(708,928)	(148,001)
Collections on installment notes receivable	65,400	65,400
Advance of notes receivable - related parties	(100,000)	(712,304)
Collections on notes from related parties	20,164	4,693
Net cash used in investing activities	<u>(1,120,058)</u>	<u>(1,193,247)</u>
Cash flows from financing activities:		
Distributions to members	(7,171,920)	(41,702)
Payments on notes to related parties	(1,527,624)	-
Payments on obligations under capital lease	(199,183)	(226,268)
Payments on notes payable	-	(964,815)
Net cash used in financing activities	<u>(8,898,727)</u>	<u>(1,232,785)</u>
Net increase in cash and cash equivalents	<u>3,409,336</u>	<u>1,118,154</u>
Cash and cash equivalents, beginning of year	<u>1,820,103</u>	<u>701,949</u>
Cash and cash equivalents, end of year	<u>\$ 5,229,439</u>	<u>\$ 1,820,103</u>

See accompanying notes to consolidated financial statements.

Insight Catastrophe Group, LLC and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

(Continued)

	<u>2016</u>	<u>2015</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	<u>\$ 30,209</u>	<u>\$ 241,676</u>
Non-cash investing:		
Purchase of computer equipment and software through capital lease agreements:	<u>\$ -</u>	<u>\$ 117,644</u>

Notes to Financial Statements

1. Nature of Business and Summary of Significant Accounting Policies

Nature of Business

Insight Catastrophe Group, LLC and Subsidiaries (the Company) specializes in providing insurance portfolio management and risk advisory services. Serving the insurance and financial services industries, the Company is dedicated to assisting its clients in achieving superior risk-adjusted returns.

Insight Catastrophe Group, LLC (ICG) is the parent company and majority member of SageSure Insurance Managers LLC and sole member of Insight Catastrophe Managers, LLC (ICM). ICG conducts no significant business and has no employees.

SageSure Insurance Managers LLC (SIM), a limited liability company domiciled in the State of Florida, is the largest independent residential property Managing General Underwriter in the United States. The Company develops competitively-priced property insurance products for its highly-rated carrier partners and distributes these products through a growing network of insurance agents and brokers.

ICM provides property risk management consulting and proprietary risk management software. Their advanced financial analytics, catastrophe modeling tools and revolutionary policy management system provide clients with a comprehensive solution that includes real-time policy evaluation, financial metrics and capital management capabilities.

Effective January 1, 2015, the operating agreement of SIM was amended to include a second member with an initial profits interest of 19.1%. As of December 31, 2014, intercompany transfers were recorded as member contributions and distributions to begin SIM's opening equity as zero on January 1, 2015. Beginning January 1, 2015, ICG recorded a minority interest for its second member.

Effective January 1, 2015, SIM and ICM entered into an Administrative & Technology Cost Sharing Agreement (the Agreement). Under the terms of the Agreement, ICM will provide SIM with certain administrative and technology services and shared costs will be allocated in accordance with the Agreement.

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of ICG, SIM and ICM (collectively referred to as the Company). The consolidated entities represent companies under common control. All significant intercompany balances and transactions have been eliminated in consolidation. The Company's consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

The significant accounting policies followed by the Company are summarized below:

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. The Company's cash and cash equivalents are held at internationally recognized financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. In the normal course of business, the Company at times has deposits that exceed insured amounts. As of December 31, 2016, the Company had \$9,487,437 exceeding the FDIC deposit limit. The Company has a concentration of credit risk since the deposits are in excess of the federally insured limit. The Company mitigates its exposure to losses from these cash deposits by monitoring the financial stability of the financial institutions involved.

Insight Catastrophe Group, LLC and Subsidiaries

Notes to Consolidated Financial Statements

Accounts Receivable - Accounts receivable balances are stated at the amount management expects to collect from outstanding balances and commissions earned. Management reviews receivables aged over 90 days for collectability and establishes a reserve if non-collection is considered probable. As of December 31, 2016 and 2015, the Company did not record an allowance for doubtful accounts. The Company, in general, does not require collateral when extending credit to customers.

Cash Held for Others - The Company maintains escrow accounts pending final settlement on behalf of certain customers. The customers have access to make deposits to the accounts. The Company returns premiums on behalf of the customers with their approval. Payments to the Company are made monthly from these accounts based on the calculated amounts due to the Company from each respective customer. The cash in these accounts is reported as cash held for others on the accompanying consolidated balance sheets and is offset by a corresponding liability.

Property and Equipment - Property and equipment are stated at cost less accumulated depreciation. Property and equipment are recorded at cost. Major renewals and improvements that extend the lives of property and equipment are capitalized, while maintenance and repairs are charged directly to expense as incurred. Upon the disposition of property and equipment, the cost of the asset and the associated accumulated depreciation and amortization is eliminated from the related accounts. Any resulting gain or loss is reported in the consolidated statements of operations.

Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the related assets as follows:

Furniture and fixtures	7-10 years
Office equipment and leasehold improvements	5-10 years
Computer equipment and office software	3-5 years

Software Development Costs - The Company internally develops software that is marketed to customers along with related software services, software licensing, and software hosting services as an application service provider. Costs incurred related to the development of software to be licensed prior to technological feasibility are expensed. Under GAAP, once the Company concludes that technological feasibility is obtained, all subsequent development costs are capitalized and reported at the lower of unamortized cost or net realizable value. Amortization is computed on an individual product basis over the estimated economic life of the product, generally three years, using the straight-line method. Costs incurred to maintain the software are expensed as incurred.

The Company evaluates the costs of each of its capitalized projects by comparing the net realizable value to unamortized cost for possible impairment. For the years ended December 31, 2016 and 2015, it was determined that impairment was not necessary.

Deferred Revenue - Amounts billed and received prior to the recognition of the related revenue are reflected as deferred revenue in the accompanying consolidated balance sheets.

Stock-Based Compensation - The Company accounts for stock based payments in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718, *Stock-Based Compensation*. Units are provided under the Company's equity-based compensation plan. Shares awarded are measured at the fair value on the grant date. Compensation expense is recognized over the vesting period of the units, with a corresponding increase in common units.

Revenue Recognition - The Company's commission and fee revenue is generated from program management services performed for customers. Commissions are recognized during the month that premiums are written net of refunds for policy cancellations. Profit sharing contingent commissions from customers are recognized when the commission amount is determined and acknowledged by the customer. The Company also offers specialized risk management consulting and software services performed for various customers. Fee income is recognized when these specialized services are rendered.

Insight Catastrophe Group, LLC and Subsidiaries

Notes to Consolidated Financial Statements

The Company has also established a reserve for cancellations, which is included in commissions and fees payable on the accompanying balance sheets. This liability includes estimates of future trends in cancellation frequency and other factors which could vary from actual results. Although it is not possible to measure the degree of variability inherent in such estimates, management believes the cancellation reserve is adequate.

Commissions and Policy Processing - Commissions revenue is recognized at the time of sale and commission expense is recognized when premiums are collected on behalf of the carriers. The Company does not record a provision for the return of commissions in the event of a cancellation of a contract. Policy processing fees are nonrefundable except in certain states where proration is required, as the fees are for a one-time service with no ongoing obligations associated for the corresponding policy period. Therefore, policy processing revenue and expense are recognized as earned and incurred.

Income Taxes - The Company is a limited liability company, the income from which is taxable to its individual members. Accordingly, the accompanying consolidated financial statements do not reflect a provision or liability for federal or state income taxes.

Fair Value of Financial Instruments

The carrying amounts of the Company's cash, accounts receivable, accounts payable and accrued expenses approximate fair value due to their short maturities. The carrying amount of notes receivable approximates fair value as the interest rate on the note is variable, approximating current market rates.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from the estimates that were used. Estimates and assumptions are periodically reviewed, and the effects of any material revisions are reflected in the consolidated statements of operations in the period that they are deemed necessary.

Application of Recent and Future Accounting Standards

Revenue Recognition

Accounting Standards Update (ASU) 2014-09 (ASU 2014-09), *Revenue from Contracts with Customers*, issued in May 2014 supersedes the revenue recognition requirements of Topic 605, *Revenue Recognition*, and most industry - specific guidance. ASU 2015-14 deferred the effective date for the Company for annual reporting periods beginning after December 15, 2018. The Company is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

Stock Compensation

In June 2014, the FASB amended the general accounting for Stock Compensation. Specifically, the amendment relates to accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. For all entities, the amendments are effective for annual periods and interim periods within those annual periods beginning after December 31, 2015. The amendment did not have an impact on the Company's consolidated financial statements.

In March 2016, the FASB made further amendments to the general accounting principles for Stock Compensation. The amendments simplify the accounting for excess tax benefits, permits an entity to make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur, non-public entities can make an accounting policy election to apply a practical expedient to estimate the expected term for all awards with performance or service conditions that meet certain conditions, and a non-public entity can make a one-time accounting policy election to switch from measuring all liability classified awards at fair value to intrinsic value. The amendments are effective for the Company for fiscal years beginning after December 15, 2017. The Company is currently assessing the impact this amendment will have on its consolidated financial statements.

Insight Catastrophe Group, LLC and Subsidiaries

Notes to Consolidated Financial Statements

Leases

In February 2016, the FASB issued an ASU 2016-02, *Leases*, intended to improve financial reporting about leasing transactions. The core principle of the guidance is that lessees will be required to recognize assets and liabilities on the balance sheet for all leases with terms of more than twelve months. A lessee would recognize a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. The accounting applied by the lessor is largely unchanged from current GAAP, with some targeted improvements. Disclosures will be required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. In transition, both lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The amendments are effective for the Company for annual reporting periods beginning after December 15, 2019. The Company is currently assessing the impact that the recently issued accounting standard will have on the Company's consolidated financial statements.

Going Concern

The Company adopted Accounting Standards Update (ASU) No. 2014-15 (ASU 2014-15), *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. This ASU adds management responsibility to evaluate going concern uncertainties, and requires for going concern disclosures to be included, if applicable. The adoption of ASU 2014-15 is effective for fiscal years ending after December 15, 2016 and interim periods within fiscal years beginning after December 15, 2016. Management has completed its assessment for the year ended December 31, 2016 and there were no items noted, which would merit disclosure.

Subsequent Events

The Company has evaluated subsequent events through June 14, 2017, the date the consolidated financial statements were available to be issued, and noted no items that would require adjustments to, or additional disclosures within, the consolidated financial statements.

2. Installment Note Receivable

The Company sold 100% of its interest in Insight Specialty Programs, LLC (ISP) in December 2011 to a related party for \$287,500. During the year ended December 31, 2012, ISP was transferred to an unrelated party. The Company initially recorded a deferred gain on the sale of ISP of \$286,160 and an installment note receivable of \$287,500, which were included on the accompanying consolidated balance sheets. The deferred gain is being recognized over the term of the accompanying installment note receivable. The Company will receive commissions from ISP, and the ultimate amount to be collected on the installment note receivable could change based on ISP's future revenues. The Company has no other continuing involvement with ISP.

At the time of sale, there was a dividend of 100% of the net working capital of ISP paid to ICG of \$77,123, of which \$55,142 was added to the installment note receivable during the year ended December 31, 2013.

The sale of ISP was financed by an installment note receivable for \$287,500. This note required quarterly principal payments of \$16,350 plus 5% interest beginning March 31, 2012 through December 31, 2013. On March 31, 2014, the outstanding balance of the note was subject to positive or negative adjustment based on ISP's total revenue for 2012 and 2013. After such adjustment, the outstanding principal balance plus 5% interest is due in 12 equal quarterly installments that began March 31, 2014. The note is also subject to adjustment if ISP's annual revenue falls below a prescribed amount. The outstanding balance of the installment note receivable was \$14,850 and \$80,250 at December 31, 2016 and 2015, respectively, and is included in the accompanying consolidated balance sheets.

3. Property and Equipment

Major classifications of property and equipment are summarized as follows for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Computer equipment	\$ 1,780,261	\$ 1,488,349
Leasehold improvements	241,255	241,255
Software – office	191,896	132,706
Furniture and fixtures	187,886	142,294
Office equipment	<u>28,952</u>	<u>28,952</u>
	2,430,250	2,033,556
Less accumulated depreciation	<u>1,216,335</u>	<u>844,408</u>
Property and equipment, net, end of year	<u><u>\$ 1,213,915</u></u>	<u><u>\$ 1,189,148</u></u>

Depreciation expense was \$371,927 and \$302,591 for the years ended December 31, 2016 and 2015, respectively.

4. Software Development Costs

Capitalized software development costs included in the accompanying consolidated balance sheets as of December 31:

	<u>2016</u>	<u>2015</u>
Software development costs	\$ 5,298,837	\$ 4,589,909
Less accumulated amortization	<u>4,514,617</u>	<u>4,441,908</u>
Net capitalized software development costs, end of year	<u><u>\$ 784,220</u></u>	<u><u>\$ 148,001</u></u>

Amortization expense was \$72,709 for the year ended December 31, 2016. There was no amortization expense for the year ended December 31, 2015. The Company evaluates the costs of each of its capitalized projects by comparing the net realizable value to unamortized cost to determine if a write-down is necessary.

5. Related Party Transactions

At December 31, 2016 and 2015, the Company had receivables from related parties of \$5,343 and \$3,852 and is included in other noncurrent assets in the accompanying consolidated balance sheets. These amounts have no set repayment terms or interest. At December 31, 2016 and 2015, the Company held receivables from employees of \$24,295 and \$8,855 and is included in other current assets on the accompanying consolidated balance sheets.

On January 29, 2015, three promissory notes in the principal amount of \$200,000 each were executed by SIM. Two of the promissory notes were between SIM and related parties and the third promissory note was between SIM and a member of SIM. Each note matures the earlier of 1) January 1, 2025, 2) the day immediately prior to the date that SIM or any of its subsidiaries files an initial registration statement for an initial public offering, 3) the date of which the note makers employment with SIM or its affiliates terminates, or 4) the sale of all or substantially all of the equity securities or assets of SIM. Interest accrues at 1.75% compounded semiannually and is due and payable on the maturity date. The principal balance of the notes outstanding as of December 31, 2016 and 2015 totaled \$600,000, with interest due thereon of \$21,277 and \$10,546, respectively, and are included in notes receivable - related parties on the accompanying consolidated balance sheets. No principal or interest was collected on the SIM notes receivables from related parties during the years ended December 31, 2016 and 2015, respectively.

Insight Catastrophe Group, LLC and Subsidiaries

Notes to Consolidated Financial Statements

On January 29, 2015 (Note A) and July 12, 2016 (Note B), promissory notes in the principal amount of \$100,000 each was executed by ICM (as the holder of the notes) and related party LLCs. The notes matures the earlier of 1) January 1, 2025 for Note A and July 12, 2026 for Note B, 2) the day immediately prior to the date that ICM or any of its subsidiaries files an initial registration statement for an initial public offering, or 3) the sale of all or substantially all of the equity securities or assets of ICM. Interest accrues at 1.75% compounded semi-annually and is due and payable on the maturity date. Payment of the note is guaranteed by each member of the related party LLC under a guaranty agreements dated January 29, 2015 and July 12, 2016 for Note A and Note B, respectively. Principal balances of the notes outstanding as of December 31, 2016 was \$83,906 and \$100,000, for Note A and Note B, respectively, and are included in notes receivable - related parties on the accompanying consolidated balance sheets. Interest of \$4,070 and \$0 was collected on outstanding balances during the years ended December 31, 2016 and 2015, respectively and the Company had accrued interest on the notes of \$0 and \$1,758 at December 31, 2016 and 2015, respectively.

The Company fulfilled all obligations on notes payable to members during 2016 and no unpaid principal or interest balances were outstanding as of December 31, 2016. These notes bore interest at 10% and required monthly payments of interest only. Principal of \$1,527,624 and interest of \$12,730 was outstanding on notes payable to related parties on December 31, 2015.

6. Long-Term Incentive Plan

The Company has long-term incentive plan (LTIP) agreements with certain key senior level employees. Eligible employees are determined and approved by executive management. Grants are made at management's discretion based on analysis of market compensation, actual performance and long-term retention goals for specific employees.

2013 LTIP

Units were granted for the plan year and are based on revenue targets set for the grant period. Final unit value is predicated on how well the Company performs against cumulative revenue and margin targets over a four-year performance period. Payout occurs as follows:

- 25% vesting and payout at end of the performance cycle
- 25% vesting and payout one year after the end of the performance cycle
- 25% vesting and payout two years after the end of the performance cycle
- 25% vesting and payout three years after the end of the performance cycle

2014-2017 LTIP

The LTIP Pool is based on Total Value created for the Company for the four-year performance period. LTIP value is based on Operating Income and Profit Sharing. Unit grants are based 16 complete quarters and units are awarded to eligible employees based on 1/16 per eligible complete quarters of employment times their allocated units for their paygrade. The payout schedule begins after the four-year performance period results are approved. Payout occurs as follows:

- 60% on or before March 15, 2018
- 20% on January 2, 2019
- 20% on January 2, 2020

The value of units vested at December 31, 2016 and 2015, was \$993,544 and \$79,395, respectively, and is included in accrued incentive compensation in the accompanying consolidated balance sheets.

Incentive compensation expense for the years ended December 31, 2016 and 2015, was \$993,544 and \$79,395, respectively, and is included in personnel expenses in the accompanying consolidated statements of operations.

7. Members' Equity

On January 1, 2015, SIM's membership executed an operating agreement which authorized 20,000 zero-par-value membership units for issuance. 10,000 of these units were authorized for issuance as Common Units. 8,090 Common Units are held by the Company and represents an 80.9% equity position in the SIM.

1,910 shares are held by a member and represents a 19.1% equity position in SIM. The aforementioned member is also an employee of SIM, and the Common Units are subject to vesting requirements which are further discussed in footnote 8. SIM maintains the right to repurchase the member's units in the event of termination, and the member maintains a right to transfer the units in the case that Company opts to not repurchase them. If the Company chooses to purchase the units upon the member's termination, a redemption price will be determined based upon the Company's fair value, at the time of termination, at a price determined by an independent party.

In accordance with the terms of SIM's operating agreement, distributions are made to members in an amount sufficient to cover the tax liability associated with the taxable income allocated to each member. These tax allocations are treated as advances against ordinary course distributions. Ordinary course distributions will be made first to the common unit holder to the extent of any accrued but unpaid preferred return earned on the preferred capital contribution of 5% over the 10-year treasury rate; next to the common unit holder to the extent of any unpaid preferred capital contribution amount of \$4,500,000; next to the members in accordance with their respective ownership percentages. Distributions of extraordinary cash flow will be paid in accordance with the terms of the operating agreement.

All Common Units have equal rights and profits (losses) are allocated pro-rata based on ownership percentage. Membership units are generally non-transferrable except under very specific circumstances.

8. Stock-Based Compensation

The Company issued 10,000 Common Units effective January 1, 2015, of which 1,910 were granted to a noncontrolling interest. Of the total Common Units issued to the noncontrolling interest, 1,143 vested upon issuance with the remaining 767 Common Units vesting ratably over a period of a period of 114 months.

The Company used a fair value method that encompassed an income approach to determine the fair value of SIM and a discounted cash flows approach for evaluating ongoing operations. Compensation expense related to the vesting of Common Units is based on a \$891 fair market value of each grant as of December 31, 2014.

9. Compensated Absences

Employees of the Company are entitled to paid vacation, paid sick leave, and personal days off. Compensated absences earned during the year are eligible for payout upon termination, while any compensated absences carried over from prior years are not eligible for payout. Therefore, no compensated absences are eligible for future payout at December 31 of any year. Additionally, all employees of the Company are compensated on a salary basis. Management considers that, for these reasons, an accrual for compensated absences is not considered necessary.

Insight Catastrophe Group, LLC and Subsidiaries
Notes to Consolidated Financial Statements

Compensation expense of \$107,643 and \$1,055,008 was recognized for the years ended December 31, 2016 and 2015, respectively, and is included in the accompanying statement of changes in members' equity. No units have been forfeited as of December 31, 2016. A summary of the Common Unit activity for the year ended December 31, 2016 is as follows:

Outstanding Common Units at December 31, 2015	1910
Vested Common Units at December 31, 2015	1224
Vested in 2016	<u>80</u>
Vested Common Units at December 31, 2016	1304
Nonvested Units at December 31, 2016	606

The Company expects to recognize stock based compensation expense of approximately \$540,000 associated with the vesting of nonvested Common Units through the year ended December 31, 2024.

10. Defined Contribution Plan

The Company sponsors a profit-sharing and 401(k) deferred compensation employee benefit plan (the Plan). Employees are eligible to participate in the Plan after attaining the age of 21 and 3 months of service with the Company. The Company contributes amounts to the Plan based upon a Safe Harbor Matching policy and also may decide each plan year whether to make a discretionary, non-elective employer contribution on behalf of eligible, active participants. Expense recognized as matching contributions was \$305,928 and \$259,188 for the years ended December 31, 2016 and 2015, respectively. There were no discretionary contributions made to the Plan during the years ended December 31, 2016 and 2015.

11. Leases

The Company leases various office facilities in Florida, Texas, Connecticut, and New Jersey that expire at various times through 2025. Space in Florida was subleased to an unrelated party effective January 1, 2014 through December 31, 2016. Sublease income under this agreement was \$52,500 in both 2016 and 2015.

Total rent expense and common charges under the operating leases was \$435,520 and \$424,257 for the years ended December 31, 2016 and 2015, respectively.

The Company leases computer equipment and software under capital lease agreements that expire in 2017. The leases require monthly payments totaling \$7,298 and interest on outstanding balances accrues at rates ranging from 7% to 8%. Balances of equipment and software under capital lease agreements are as follows for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Computer equipment	\$ 740,720	\$ 740,720
Less accumulated depreciation and amortization	<u>615,677</u>	<u>324,375</u>
Net equipment under capital leases, end of year	<u>\$ 125,043</u>	<u>\$ 416,345</u>

Insight Catastrophe Group, LLC and Subsidiaries
Notes to Consolidated Financial Statements

Depreciation and amortization expense related to the above property was \$145,181 and \$147,391 for the years ended December 31, 2016 and 2015, respectively, and is included in the consolidated statements of operations.

At December 31, 2016, the future minimum lease payments under capital leases and rental payments required under operating leases are presented as follows:

	<u>Capital Lease</u>	<u>Operating Leases</u>
2017	\$ 21,894	\$ 545,491
2018	-	413,009
2019	-	341,279
2012	-	341,279
2021	-	341,279
Thereafter	<u>-</u>	<u>1,011,919</u>
Total minimum lease payments	21,894	<u>\$ 2,994,256</u>
Less amount representing interest	<u>322</u>	
Capital lease obligations, current maturities	<u>\$ 21,572</u>	

12. Information About Financial Instruments with Off Balance Sheet Risk, and Significant Customers

Accounts receivable of approximately 100% and 94% were due from two customers at December 31, 2016 and 2015, respectively, these two customers accounted for approximately 92% and 93% of revenues derived from program management services for the years ended December 31, 2016 and 2015, respectively.

Supplementary Information

Insight Catastrophe Group, LLC and Subsidiaries
Consolidating Balance Sheets
December 31, 2016

	Insight Catastrophe Group, LLC	SageSure Insurance Managers LLC	Insight Catastrophe Managers, LLC	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 444,666	\$ 3,347,141	\$ 1,437,632	\$ -	\$ 5,229,439
Accounts receivable	16,739	4,407,971	378,560	-	4,803,270
Current portion of installment note receivable	14,850	-	-	-	14,850
Other receivables	-	18,145	10,847	-	28,992
Other current assets	-	105,712	217,008	-	322,720
Due from affiliates	-	644,067	-	(644,067)	-
Cash held for others	-	4,301,041	-	-	4,301,041
Total current assets	<u>476,255</u>	<u>12,824,077</u>	<u>2,044,047</u>	<u>(644,067)</u>	<u>14,700,312</u>
Software development costs, net	-	-	784,220	-	784,220
Property and equipment, net	-	109,474	1,104,441	-	1,213,915
Other assets:					
Investment in subsidiaries	5,061,864	-	-	(5,061,864)	-
Installment note receivable, net of current portion	-	-	-	-	-
Notes receivable - related parties	-	621,277	183,906	-	805,183
Other noncurrent assets	9	9,630	237,306	-	246,945
Total other assets	<u>5,061,873</u>	<u>630,907</u>	<u>421,212</u>	<u>(5,061,864)</u>	<u>1,052,128</u>
Total assets	<u>\$ 5,538,128</u>	<u>\$ 13,564,458</u>	<u>\$ 4,353,920</u>	<u>\$ (5,705,931)</u>	<u>\$ 17,750,575</u>

See independent auditors' report on supplementary information.

Insight Catastrophe Group, LLC and Subsidiaries
Consolidating Balance Sheets
December 31, 2016

(Continued)

	Insight Catastrophe Group, LLC	SageSure Insurance Managers LLC	Insight Catastrophe Managers, LLC	Eliminations	Consolidated
LIABILITIES AND MEMBERS' EQUITY					
Current liabilities:					
Obligation under capital lease, current portion	\$ -	\$ -	\$ 23,954	\$ -	\$ 23,954
Accounts payable	-	818,779	438,508	-	1,257,287
Commissions and fees payable	-	2,950,862	-	-	2,950,862
Other accrued expenses	-	960,814	907,629	-	1,868,443
Accrued incentive compensation	-	286,634	706,919	-	993,553
Customer deposits	-	-	4,375	-	4,375
Accounts held for others	-	4,301,041	-	-	4,301,041
Deferred revenue	-	-	1,883	-	1,883
Due to affiliates	-	-	644,067	(644,067)	-
Total current liabilities	-	9,318,130	2,727,335	(644,067)	11,401,398
Members' equity:					
Members' equity	5,538,128	3,435,279	1,626,585	(5,061,864)	5,538,128
Noncontrolling interests	-	811,049	-	-	811,049
Total members' equity	5,538,128	4,246,328	1,626,585	(5,061,864)	6,349,177
Total liabilities and members' equity	<u>\$ 5,538,128</u>	<u>\$ 13,564,458</u>	<u>\$ 4,353,920</u>	<u>\$ (5,705,931)</u>	<u>\$ 17,750,575</u>

See independent auditors' report on supplementary information.

Insight Catastrophe Group, LLC and Subsidiaries
Consolidating Balance Sheets
December 31, 2015

(Continued)

	Insight Catastrophe Group, LLC	SageSure Insurance Managers LLC	Insight Catastrophe Managers, LLC	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 84,005	\$ 1,297,973	\$ 438,125	\$ -	\$ 1,820,103
Accounts receivable	17,457	3,553,670	191,785	-	3,762,912
Current portion of installment note receivable	65,400	-	-	-	65,400
Other receivables	-	12,868	-	-	12,868
Other current assets	-	92,545	85,286	-	177,831
Due from affiliates	-	1,513,007	-	(1,513,007)	-
Cash held for others	-	4,021,015	-	-	4,021,015
Total current assets	<u>166,862</u>	<u>10,491,078</u>	<u>715,196</u>	<u>(1,513,007)</u>	<u>9,860,129</u>
Software development costs, net	-	-	148,001	-	148,001
Property and equipment, net	-	36,078	1,153,070	-	1,189,148
Other assets:					
Investment in subsidiaries	3,702,691	-	-	(3,702,691)	-
Installment note receivable, net of current portion	14,850	-	-	-	14,850
Notes receivable - related parties	-	610,546	101,758	-	712,304
Other noncurrent assets	9	9,630	237,665	-	247,304
Total other assets	<u>3,717,550</u>	<u>620,176</u>	<u>339,423</u>	<u>(3,702,691)</u>	<u>974,458</u>
Total assets	<u>\$ 3,884,412</u>	<u>\$ 11,147,332</u>	<u>\$ 2,355,690</u>	<u>\$ (5,215,698)</u>	<u>\$ 12,171,736</u>

See independent auditors' report on supplementary information.

Insight Catastrophe Group, LLC and Subsidiaries
Consolidating Balance Sheets
December 31, 2015

(Continued)

	Insight Catastrophe Group, LLC	SageSure Insurance Managers LLC	Insight Catastrophe Managers, LLC	Eliminations	Consolidated
LIABILITIES AND MEMBERS' EQUITY					
Current liabilities:					
Notes payable - related parties, current portion	\$ 964,815	\$ -	\$ -	\$ -	\$ 964,815
Obligation under capital lease, current portion	-	-	198,927	-	198,927
Deferred gain on sale of subsidiary, current portion	25,458	-	-	-	25,458
Accounts payable	-	784,567	231,144	-	1,015,711
Commissions and fees payable	-	1,994,841	-	-	1,994,841
Other accrued expenses	-	475,004	611,942	-	1,086,946
Accrued interest expense	12,730	-	-	-	12,730
Accrued incentive compensation	-	19,849	59,546	-	79,395
Customer deposits	-	-	4,375	-	4,375
Accounts held for others	-	4,021,015	-	-	4,021,015
Deferred revenue	-	-	1,883	-	1,883
Due to affiliates	875,722	-	637,285	(1,513,007)	-
Total current liabilities	1,878,725	7,295,276	1,745,102	(1,513,007)	9,406,096
Notes payable - related parties, noncurrent portion	562,809	-	-	-	562,809
Obligation under capital lease, noncurrent portion	-	-	24,210	-	24,210
Total liabilities	2,441,534	7,295,276	1,769,312	(1,513,007)	9,993,115
Members' equity:					
Members' equity	1,442,878	3,116,313	586,378	(3,702,691)	1,442,878
Noncontrolling interests	-	735,743	-	-	735,743
Total members' equity	1,442,878	3,852,056	586,378	(3,702,691)	2,178,621
Total liabilities and members' equity	<u>\$ 3,884,412</u>	<u>\$ 11,147,332</u>	<u>\$ 2,355,690</u>	<u>\$ (5,215,698)</u>	<u>\$ 12,171,736</u>

See independent auditors' report on supplementary information.

Insight Catastrophe Group, LLC and Subsidiaries
Consolidating Statements of Operations
Year Ended December 31, 2016

	Insight Catastrophe Group, LLC	SageSure Insurance Managers LLC	Insight Catastrophe Managers, LLC	Eliminations	Consolidated
Operating revenues	\$ -	\$ 57,641,689	2,727,321	\$ -	\$ 60,369,010
Operating expenses:					
Commissions	-	23,081,276	-	-	23,081,276
Personnel	-	15,992,627	1,084,444	-	17,077,071
Other	63,082	3,277,535	130,868	-	3,471,485
Professional fees	3,184	2,092,907	18,358	-	2,114,449
Policy processing	-	209,430	-	-	209,430
Program printing	-	825,000	-	-	825,000
Software licensing	-	519,520	4,753	-	524,273
Occupancy	-	415,558	19,961	-	435,519
Software development	-	667,826	73,243	-	741,069
Depreciation and amortization	-	333,660	38,267	-	371,927
Total operating expenses	66,266	47,415,339	1,369,894	-	48,851,499
Operating income (loss) before stock based compensation	(66,266)	10,226,350	1,357,427	-	11,517,511
Stock based compensation	-	107,643	-	-	107,643
Operating income (loss)	(66,266)	10,118,707	1,357,427	-	11,409,868
Nonoperating income (expenses):					
Interest income	2,781	10,731	2,462	-	15,974
Interest expense	(6,550)	-	(10,929)	-	(17,479)
Gain on sale of subsidiary	26,462	-	-	-	26,462
Guaranteed payment income	69,887	-	-	(69,887)	-
Guaranteed payment expense	(200,000)	(69,888)	-	69,887	(200,001)
Equity in earnings of subsidiaries	9,466,577	-	-	(9,466,577)	-
Net nonoperating income (expenses)	9,359,157	(59,157)	(8,467)	(9,466,577)	(175,044)
Net income	9,292,891	10,059,550	1,348,960	(9,466,577)	11,234,824
Less net income attributable to noncontrolling interest	-	1,941,933	-	-	1,941,933
Net income attributable to controlling interest	\$ 9,292,891	\$ 8,117,617	\$ 1,348,960	\$ (9,466,577)	\$ 9,292,891

See independent auditors' report on supplementary information.

Insight Catastrophe Group, LLC and Subsidiaries
Consolidating Statements of Operations
Year Ended December 31, 2015

(Continued)

	Insight Catastrophe Group, LLC	SageSure Insurance Managers LLC	Insight Catastrophe Managers, LLC	Eliminations	Consolidated
Operating revenues	\$ -	\$ 41,543,057	\$ 2,367,414	\$ -	\$ 43,910,471
Operating expenses:					
Commissions	-	17,642,839	-	-	17,642,839
Personnel	-	12,193,240	1,018,723	-	13,211,963
Other	29,425	2,646,950	109,287	-	2,785,662
Professional fees	-	1,700,986	65,793	-	1,766,779
Policy processing	-	1,161,889	-	-	1,161,889
Program printing	-	615,692	-	-	615,692
Software licensing	-	478,967	3,623	-	482,590
Occupancy	-	466,024	39,911	-	505,935
Software development	-	214,200	31,196	-	245,396
Depreciation and amortization	-	260,360	169,080	-	429,440
Total operating expenses	29,425	37,381,147	1,437,613	-	38,848,185
Operating income (loss) before stock based compensation	(29,425)	4,161,910	929,801	-	5,062,286
Stock based compensation	-	1,055,008	-	-	1,055,008
Operating income (loss)	(29,425)	3,106,902	929,801	-	4,007,278
Nonoperating income (expenses):					
Interest income	6,051	10,546	1,758	-	18,355
Interest expense	(196,983)	-	(36,653)	-	(233,636)
Gain on sale of subsidiary	65,400	-	-	-	65,400
Guaranteed payment income	320,400	-	-	(320,400)	-
Guaranteed payment expense	(400,000)	(320,400)	-	320,400	(400,000)
Miscellaneous income (expenses)	(148,798)	-	(73,235)	-	(222,033)
Equity in earnings of subsidiaries	4,075,620	-	-	(4,075,620)	-
Net nonoperating income (expenses)	3,721,690	(309,854)	(108,130)	(4,075,620)	(771,914)
Net income	3,692,265	2,797,048	821,671	(4,075,620)	3,235,364
Less net income attributable to noncontrolling interest	-	735,743	-	-	735,743
Net income attributable to controlling interest	<u>\$ 3,692,265</u>	<u>\$ 2,061,305</u>	<u>\$ 821,671</u>	<u>\$ (4,075,620)</u>	<u>\$ 2,499,621</u>

See independent auditors' report on supplementary information.

Insight Catastrophe Group, LLC and Subsidiaries
Consolidating Statements of Changes in Members' Equity
Years Ended December 31, 2016 and 2015

	Insight Catastrophe Group, LLC	SageSure Insurance Managers LLC		Insight Catastrophe Managers, LLC	Eliminations	Consolidated
		Controlling Interest	Noncontrolling Interest			
Balance, December 31, 2014	\$ (2,070,049)	\$ -	\$ -	\$ (372,929)	\$ 372,929	\$ (2,070,049)
Transfers in (out)	(137,636)	-	-	137,636	-	-
Member distributions	(41,702)	-	-	-	-	(41,702)
Stock based compensation	-	1,055,008	-	-	-	1,055,008
Net income	3,692,265	2,061,305	735,743	821,671	(4,075,620)	3,235,364
Balance, December 31, 2015	1,442,878	3,116,313	735,743	586,378	(3,702,691)	2,178,621
Transfers in (out)	308,753	-	-	(308,753)	-	-
Member distributions	(5,506,394)	(7,906,294)	(1,866,627)	-	8,107,404	(7,171,911)
Stock based compensation	-	107,643	-	-	-	107,643
Net income	9,292,891	8,117,617	1,941,933	1,348,960	(9,466,577)	11,234,824
Balance, December 31, 2016	<u>\$ 5,538,128</u>	<u>\$ 3,435,279</u>	<u>\$ 811,049</u>	<u>\$ 1,626,585</u>	<u>\$ (5,061,864)</u>	<u>\$ 6,349,177</u>

See independent auditors' report on supplementary information.